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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Federal-State Joint Board on
Universal Service

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CC Docket No. 96-45

**REPLY COMMENTS OF THE ALASKA RURAL COALITION
TO THE RURAL TASK FORCE'S RECOMMENDATIONS**

Rural Alaska is remote and largely inaccessible by road; the weather is harsh and the terrain extreme. These facts, together with rural Alaska's significant distance from the continental United States, create a greater need for access to basic and advanced telecommunications services in rural Alaska than any other area of the United States.

The Alaska Rural Coalition, comprised of numerous Alaska local exchange carriers, was created to address significant public policy issues arising under the Telecommunications Act of 1996. Listed alphabetically, the fourteen companies are:

- Alaska Telephone Company
- Arctic Slope Telephone Association Cooperative, Inc.
- Bettles Telephone, Inc.
- Bristol Bay Telephone Cooperative, Inc.
- Bush-Tell, Inc.
- Copper Valley Telephone Cooperative, Inc.
- Cordova Telephone Cooperative, Inc.
- Interior Telephone Company, Inc.
- Ketchikan Public Utilities
- Matanuska Telephone Association
- Mukluk Telephone Company, Inc.
- North Country Telephone, Inc.
- Nushagak Telephone Cooperative, Inc., and
- OTZ Telephone Cooperative, Inc.

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The Alaska Rural Coalition has actively appeared before the Alaska Public Utilities Commission, and its successor, the Regulatory Commission of Alaska, in substantially every

adjudicatory and rulemaking proceeding which has involved significant issues of telecommunications policy. Collectively, the Alaska Rural Coalition has a presence in every region of Alaska, including Alaska's most remote communities such as Little Diomed, which is located on a rocky island in the Bering Sea only miles from Russia.

The Alaska Rural Coalition hereby submits its reply comments in response to the Commission's Public Notice, released October 4, 2000, seeking comment on the Rural Task Force's ("RTF") Recommendation. In summary, the Alaska Rural Coalition urges the Joint Board to implement the Rural Task Force's Recommendation as a whole. The Rural Task Force, comprised of many divergent constituencies, based its recommendations on a written evidentiary record comprised of six white papers. Its recommendations are also based on guiding universal service principles set forth in Section 254(b) of the Telecommunications Act of 1996, as well as the principle of competitive neutrality. The Rural Task Force's Recommendation is the result of a thorough analysis of the issues, and should be adopted without delay.

In its reply comments here, the Alaska Rural Coalition focuses on why the Rural Task Force's recommendation to adopt a modified embedded cost mechanism for universal service support for rural telephone companies should be implemented. In particular, the Alaska Rural Coalition responds to criticisms of this proposal. Universal service support is critical for the continued provision of high-quality, affordable local exchange service in the communities served by Alaska Rural Coalition member companies.

I. The RTF's Modified Embedded Cost Mechanism Promotes Universal Service Principles in Rural Alaska.

Due to rural Alaska's remoteness, telecommunications services play an extremely vital role in commerce, education and rural Alaskans' lives. Rural Alaska communities are generally

not accessible by road. Instead, many are accessible only by plane or by boat.¹ While Anchorage is 1,500 air miles from Seattle, rural Alaskan communities, such as Atka, are an additional 1,100 miles from Anchorage. Rural Alaskan communities are extremely isolated. Moreover, rural Alaska's rugged terrain and formidable weather further contribute to the isolation of rural communities in Alaska. And, these communities have populations as small as a few hundred people, and only the most rudimentary local economies. These factors, together with the vast distances from many of these communities to the continental United States, create significant social, educational and economic barriers. Access to telecommunications reduces these barriers, and is therefore, arguably, more vital to rural Alaska than nearly any other part of the United States.

At the same time, sparsely populated rural Alaskan communities render delivery of new and advanced services prohibitively expensive because the population base typically cannot support the cost of the service.² To make matters more complicated, many rural Alaskans have minimal incomes. As a result of these factors, universal service support is vital to the delivery of high quality, affordable local exchange service in Alaska.

The RTF's Modified Embedded Cost Mechanism, which sets a baseline to size the universal service fund for rural companies, must be adopted in order for rural Alaskan residents to continue to have access to basic and advanced telecommunications services. As the Joint Board well knows, the Telecommunications Act of 1996 mandates that "[q]uality services should be available at just, reasonable, and affordable rates;" that "[a]ccess to advanced

¹ It goes without saying that water access is seasonal, as the rivers cannot be navigated when they freeze.

² For example, the communities of Noatak and Shungnak, which surround Kotzebue, have respectively, 117 subscriber lines and 80 subscriber lines. If either one of these communities had only 10 or so internet subscribers, Internet access would require a monthly rate of approximately \$150 just to cover the \$1,500 cost of the 56 kbps satellite circuit connecting each village with Kotzebue. This is plainly unaffordable, particularly in rural Alaska.

telecommunications and information services should be provided in all regions of the Nation;” and that “[c]onsumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.” 47 U.S.C. §§ 254(b)(1)-(3). In order to achieve these goals in rural Alaska, rural companies must be able to recover their costs. Otherwise, investment and subscribership will both decline dramatically, contrary to Congress’ goals articulated in Section 254 of the Telecommunications Act of 1996.

Some commenters, in their opening remarks, criticize the Rural Task Force’s recommendation to adopt a Modified Embedded Cost Mechanism. Those commenters object to rural telephone companies receiving universal service support based on an embedded cost methodology, while nonrural companies receive universal service support based on a forward-looking methodology.³ Those commenters advocate a single, well-targeted system instead of a dual system. Other commenters contend that there is no basis for the size of the universal service fund under the Rural Task Force’s Recommendation, and that the Rural Task Force’s proposed support levels could stimulate excessive and/or inefficient investment by rural carriers.⁴ For both legal and practical reasons, these claims are without merit.

First, Congress itself treats rural telephone companies differently than all other telephone companies. In recognition of the vastly different economic circumstances surrounding the provision of service to a rural area by a rural telephone company, Congress enacted a special

³ These commenters include the Maine Public Utilities Commission, the Vermont Department of Public Service and Vermont Public Service Board, and General Communication, Inc.

⁴ See Comments of the People of the State of California and the California Public Utilities Commission.

definition for “rural telephone companies,”⁵ and then implemented a separate model governing competitive entry into areas served by rural telephone companies.⁶ Congress further gave state commissions the discretion in deciding whether to designate multiple Eligible Telecommunications Carriers to receive support for providing universal service in areas served by a rural telephone company. 47 U.S.C. § 214(e)(2). Accordingly, while commenters may criticize the Rural Task Force’s separate treatment of rural telephone companies, and claim there is no basis for such a distinction, Congress itself (and wisely so) created that distinction in recognition of the economics of providing high-quality and affordable local telecommunications service in rural areas served by rural telephone companies.

Second, the FCC has followed Congress’ lead and has itself treated rural telephone companies’ universal service needs differently from the needs of other companies. For example, the FCC has adopted a forward-looking cost model for determining nonrural carriers’ high cost support, but does not use that model to determine high cost support for rural telephone companies.⁷ And, in 1997, the Federal-State Joint Board and USTA called for, and the FCC approved, the establishment of a Rural Task Force to “identify the issues unique to rural companies and analyze the appropriateness of proxy models for rural companies.” *Federal-State Joint Board on Universal Service, Report and Order*, CC Docket No. 96-45, FCC 97-157, 12 FCC Record 8776 (1997)(May 8 Order), Paragraph 253. Established in 1998, the Rural Task Force’s mission statement, adopted on December 12, 1998, provides that it intended “to

⁵ 47 U.S.C. § 153 subpart (37).

⁶ See 47 U.S.C. § 251(f)(1)(A)

⁷ As described by the Rural Task Force in White Paper 1, released September 1999, the FCC has been careful to distinguish between universal service support reform for nonrural companies and Rural Telephone Companies. *Rural Task Force White Paper 1* at 4-6.

review and evaluate alternative universal service support mechanisms which affect consumers in rural or insular areas served by rural telephone companies . . .”⁸

Third, the Rural Task Force evaluated whether and to what extent there is a difference in the economics of providing local telephone service between rural telephone companies and nonrural telephone companies. The Rural Task Force concluded that there were substantial differences which it identified in White Paper No. 2, “The Rural Difference,” released in January 2000. The Rural Task Force’s findings reveal that rural carriers, compared with nonrural carriers, lack economies of scale and density; experience difficulty and high cost in moving personnel, equipment and supplies to remote and insular communities;⁹ require more resources to protect network reliability;¹⁰ have fewer lines over which to spread high fixed network costs; have higher total investment in plant per loop; and have higher plant specific and operations expenses. *Id.* at 8-14. Overcoming these obstacles, while serving a customer base with a 20% lower annual household income,¹¹ irrefutably underscores the practical necessity of

⁸ See “Mission Statement, Objectives and Principles for Developing a Recommendation,” adopted by the Rural Task Force December 12, 1998, available at www.wa.gov/rtf.

⁹ In particular, White Paper No. 2 cited an episode from Sand Point, Alaska, in support of this conclusion: “The town of Sand Point, Alaska, had a water and sewer project underway which required moving and installing new telephone cable. The only ferry that could carry a truck with cable to the island had been scheduled for use. However, the truck delivering the cable broke down and missed the annual ferry run. The cable reels were too large to be carried on the regular freight plane that serviced the area, so a CL 123 (Hercules) airplane had to be chartered at a cost of \$25,000 to deliver the cable. Otherwise, half of the town would have been without telephone service for a year.” ***Rural Task Force White Paper No. 2*** at 16.

¹⁰ White Paper No. 2 cited an episode from Little Diomed, Alaska to illustrate this point: “Little Diomed Island is an inland [sic] in the middle of the Bering Strait, two miles from Russian Big Diomed Island. It has a small Native American community with 57 access lines. Access to the island is primarily by air. In the winter, a runway can be plowed on the pack ice in the Bering Sea and an air trip from Nome costs \$175. In the summer, access to the island is by helicopter at the cost of \$3,000 per trip. The Telephone Company in this area has placed two separate loops to each home to limit the number of service calls that are necessary.” ***Rural Task Force White Paper No. 2*** at 16.

¹¹ *Id.* at 13.

treating rural companies differently than nonrural companies if the universal service goals mandated by Section 254(b) are to be met.

Fourth, the Rural Task Force evaluated alternate methods for determining universal service support for rural telephone companies, comparing their strengths and weaknesses, in White Paper 3, “Alternative Mechanisms for Sizing a Universal Service Fund for Rural Telephone Companies,” released in August, 2000. In addition, the Rural Task Force examined the application of the Synthesis Model to rural telephone companies, which has been adopted by the FCC as the proxy cost model for use in sizing the universal service fund for nonrural companies. The Rural Task Force’s detailed analysis of this model’s application to rural telephone companies is set forth the Rural Task Force’s White Paper 4, “A Review of the FCC’s Non-Rural Universal Fund Method and the Synthesis Model for Rural Telephone Companies.” This White Paper concluded that the application of the Synthesis Model was not an appropriate tool for determining the forward-looking cost of rural telephone companies because the model’s predicted costs varied widely from reasonable estimates of forward-looking costs, and because it would not produce a sufficient universal service mechanism for rural telephone companies.¹² The National Exchange Carriers Association (“NECA”) agreed with the Rural Task Force’s conclusion, stating that its own analyses of the model produce[d] “greatly distorted results for Rural carriers” Comments of the National Exchange Carrier Association, Inc., November 3, 2000, at 3.¹³

Fifth, the Recommendation addresses concerns about excessive investment and provides a rational basis for the recommended levels of support under the Rural Task Force’s Modified

¹² As applied to rural Alaska, the Rural Task Force concluded that the model does not “currently contain customer location and other data to produce results for rural wire centers in Alaska” *Rural Task Force Recommendation* at 18.

¹³ The Alaska Rural Coalition fully supports the opening comments filed by NECA on November 3, 2000 in this docket.

Embedded Cost Mechanism. As the Rural Task Force's Recommendation describes at page 32-33, NECA collects cost data from high cost support recipients annually and reviews the data for reasonableness. NECA has also been utilizing a mechanized data collection process that allows ILECs or their consultants to enter data and to review it for consistency. The system uses an extensive set of edit and range controls to check data for reasonableness, and users are alerted to significant variations which NECA reviews for compliance purposes. NECA requires ILECs to provide explanations or corroborating information, where necessary, and NECA Staff reviews ILEC responses for reasonableness or deficiencies. These processes promote accountability and should resolve concerns about excessive investment.

Moreover, ample evidence exists to support the size of the fund recommended by the Rural Task Force. As previously mentioned, rural telephone companies provide NECA with cost data annually. There is no evidence that the data submitted and approved results in either excessive or unwarranted support. Moreover, as the Joint Board well knows, rural telephone companies have not fully recovered their actual costs due to an estimated \$350 million deficiency in the universal service fund since 1997.¹⁴ Although Congress has decreed that universal service support must be "sufficient," high cost loop support, recovery of corporate operations expense and universal service fund support related to newly acquired exchanges are all currently capped. NECA calculates that the payment shortfalls since the "interim" cap was imposed in 1994 approach 13% of total fund payments. *Id.* If continued into 2001, NECA estimates that the cap effect will grow to \$198 million, or nearly 18 percent of full funding. *Id.* at 5, n. 14.¹⁵ Under these circumstances, where rural telephone companies' universal service

¹⁴ See Opening Comments of National Exchange Carriers Association, November 3, 2000, at 5.

¹⁵ Recent NECA analyses, provided at the Joint Board's request, conclude that Rural Telephone Companies in Alaska would have received over \$6,540,871.09 more if the these funds had not been capped.

support is capped and where they are not even recovering their costs, there is ample evidence that the Rural Task Force's recommended resizing of the universal service fund is warranted.¹⁶ Such a resizing is also warranted to ensure that investment is promoted in order to provide advanced services, and to ensure that support is "specific, predictable and sufficient" consistent with Section 254(b)(5) of the Telecommunications Act of 1996.

II. The Rural Task Force's Recommendations Should Not Be Compromised to Provide Universal Service Support for Intrastate Transport.

Several commenters have suggested using universal service funds created as a result of the adoption of the Rural Task Force's recommendations for subsidizing the high cost of intrastate transport in rural Alaska. The Rural Coalition fully supports additional universal service funding allocations to support the cost of the long-distance satellite link needed to provide Internet service in rural Alaska.¹⁷ However, the Rural Task Force's Recommendation regarding universal service is directed at maintaining high-quality and affordable local telecommunications services, and does not address the need to support interexchange service. The Alaska Rural Coalition urges the Joint Board and the FCC to adopt the Rural Task Force's Recommendation without modification, and to make available additional universal service funds to subsidize the high cost of the long-distance transportation link needed in the most rural areas of Alaska for Internet access. *See Alaska Rural Coalition's Comments in Response to the Further Notice of Proposed Rulemaking on Unserved and Underserved Areas, infra*, at footnote 15.

¹⁶ However, based on recent calculations prepared by NECA at the Joint Board's request, Rural Telephone Companies will not receive as much universal service funding under the Rural Task Force's Modified Embedded Cost Mechanism as they would if the cap were simply removed.

¹⁷ *See* footnote 2, *infra*, and the *Alaska Rural Coalition's Comments in Response to the Further Notice of Proposed Rulemaking on Unserved and Underserved Areas*, filed December 15, 1999 in CC Docket 96-45, where the Alaska Rural Coalition urged the FCC to provide universal service funding to subsidize the high cost of the long-distance transportation link needed in the most rural areas of Alaska for Internet access.

Conclusion

The Alaska Rural Coalition strongly endorses the Rural Task Force's Recommendation. The Recommendation promotes Congress' universal service principles and is well-supported by the Rural Task Force's lengthy evidentiary record. The Alaska Rural Coalition urges the Joint Board and the FCC to adopt the Recommendation as quickly as possible. An uncertain future will cause rural, high-cost areas to suffer from a lack of investment and development, and will deprive Alaska's rural residents of service which virtually the rest of the Nation enjoys.

Dated this 30th day of November, 2000.

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